



Utah Counties Insurance Pool
Supporting Your Goals Since 1992

Payroll Audit Procedures

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Basic Procedure

- County estimates payroll for the coming year
- Deposit premium billed based on estimate
- Audit performed at end of year to determine actual payroll for year
- Actual annual premium calculated based on same rates as deposit
- Additional or return premium based on difference in actual payroll to estimate

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Premium Calculation

For each work comp code:

$$\left\{ (\text{Payroll}/100) \times \text{Rate} \right\} \times \text{Mod} = \text{Premium}$$

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Areas to Control Cost

- Proper Employee Coding
 - Rates for each code differ significantly
 - Improper coding will end up costing more
- Controlling Experience Modifier
 - Improper coding will affect mod
 - Early return to work will have greatest impact
- Effect on overall UCIP rates
 - Precise coding and payroll information, along with reduced lost time will impact rates

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Employee Coding

- 5509 – Road
- 7704 – Firefighters
- 8810 - Clerical (physical separation)
- 9416 – County (Not Otherwise Classified)

Generally, all payroll for each employee is coded to highest risk code applicable to any work they perform

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Splitting Payroll

- Must have documentation
 - Time cards or logs
- Must enter into payroll system separately
- If employee spends considerable time working lower risk position, savings can be significant

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Definition of Payroll

- Wages
 - Includes:
 - Bonuses
 - Holiday, sick & vacation paid
 - Amounts withheld for Social Security & Medicare
 - Deductions from employee gross pay for salary reduction, employee saving plans, retirement or 125 cafeteria plan

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Definition of Payroll (continued)...

- Wages
 - Excludes:
 - Employer paid group insurance or group pension
 - Severance pay except for accrued sick/vacation
 - Supper money for late work
 - Uniform allowances
 - Use of employer owned automobiles
 - Matching employer contributions into savings plans, retirement plans or 125 cafeteria plans
 - Payments for active military duty

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Definition of Payroll (continued)...

- Substitutes for wages
 - Includes:
 - Value of meals provided to employee
 - Allowances for hand tools or hand held power tools
 - Rental value of apartment or other lodging
 - Expense reimbursements if records can not confirm expense was for a valid business purpose

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Definition of Payroll (continued)...

- Substitutes for wages
 - Excludes:
 - Expenses if records confirm they were for a valid business purpose
 - Supper money for late work
 - Work uniform allowances
 - Use of employer owned automobiles

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Definition of Payroll (continued)...

- Overtime
 - Overtime pay is included as payroll, but can be reduced to amount paid at regular rate
- Premium Pay
 - Shift Differential pay is included as payroll at full rate paid

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Payroll Reporting is Serious Biz

- Workers' Comp Insurance Fraud Statute
 - Section 34A-2-110
 - Majority of section relates to avoiding payment of premium or benefits by providing false information to an insurer
 - Violation of fraud statutes constitutes
 - Class A misdemeanor if value is less than \$1,000
 - Third degree felony if value is between \$1,000 and \$5,000
 - Second degree felony if value is over \$5,000

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When to consider WC cost

- Salary adjustments (COLA, market...)
- Conversion of benefits to salary
- New positions
- Replacing positions
- Hiring vs. contracting

Use the UCIP estimator at www.ucip.gov

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All about Equity

- Through the audit process, all members pay their share
- Audit allows members to control their actual cost
- Audit process will lead to lower rates
- UCIP will assist with estimating actual cost based on increases/decreases to payroll

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